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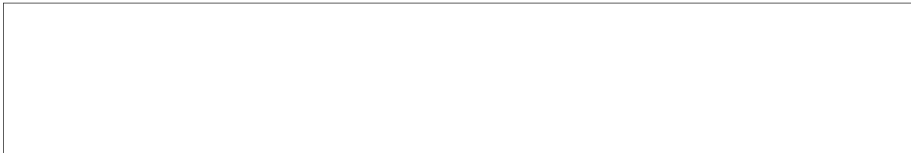
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ARGENTINA: Economic Moves

Government leaders have taken steps to preserve economic order through the elections scheduled for October, but the policy measures will heighten problems for the next administration. [redacted]

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Argentina's financial package came close to unraveling this week because of the junta's reluctance to lift foreign exchange controls on British firms in the country. Once the government agreed to meet loan criteria, however, the IMF approved Buenos Aires's second draw on loan funds. [redacted]

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The leadership also approved a new set of economic measures designed to curb the inflation rate, which is now over 300 percent annually. The measures include restraints on wage, price, and interest rate hikes as well as on new government investment. A steep surcharge was placed on income taxes, but, to placate industrialists, the value-added tax was slightly reduced. [redacted]

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Nationalists have called the lifting of sanctions against the UK a sellout. Labor leaders have complained that the package will not do enough to maintain the workers' standard of living. [redacted]

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Comment: Reconciliation with the IMF has paved the way for new funds necessary to sustain the recovery program. In addition, bankers should now be willing to reschedule Buenos Aires's large short-term debt. [redacted]

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The next government, however, will pay a price for these fleeting gains. Although price controls will repress inflation rates for now, the market distortions they create will set the stage for substantial jumps later in the year. Interest rate ceilings and reduction in the value-added tax also will work to restrain near-term inflation, but they will discourage savings and spur capital flight. [redacted]

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Moreover, the tax package will not prevent higher deficits. This will add to the inflationary pressures that will be one of the early challenges facing the civilian administration. Labor will put pressure on the new government to allow wage increases. [redacted]

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FRANCE-CHAD: Sending Additional Troops

The US defense attache in Paris reports that the French will have a total of about 1,400 troops in Chad by this weekend. The French also have intensified their airlift to Chad and are sending in the command and support units required for extended operations. According to the attache, four Mirage F-1 fighters, four Jaguar fighter-bombers, and four KC-135 tankers will be moved from bases in central Africa to N'Djamena. The French are placing Crotale surface-to-air missiles around the N'Djamena airport, and French troops are occupying the east-west line from Salal to Arada.

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Comment: In addition to helping counter any further Libyan and dissident advances, these new commitments probably are intended to strengthen France's position in any negotiations with Libya.

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USSR: Continued Ambiguity on INF Talks

A TASS report states that General Secretary Andropov told the head of a visiting US trade union delegation yesterday that the USSR will follow a constructive and flexible line in the Geneva talks "until" the US Government, as a result of its INF deployments in Europe, "compels us to concentrate on defensive countermeasures." [redacted]

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Comment: While promising "countermeasures," Andropov is refraining from stating categorically that the talks would be broken off once deployment begins. In private talks last month with West German Chancellor Kohl, Andropov parried a direct question about the prospects for negotiations by downgrading their importance in the light of the "new situation" that would be created by deployment. Andropov presumably wants to avoid a repeat of the problems caused by Foreign Minister Gromyko's remarks at a press conference in November 1979. On that occasion, Gromyko categorically ruled out East-West arms talks if the NATO states agreed to the INF basing decision the following month. [redacted]

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GUATEMALA-EL SALVADOR-HONDURAS: Military Cooperation

The new Guatemalan Government probably hopes that its increasing support for US policy in Central America and its interest in closer military coordination with Honduras and El Salvador will result in US military assistance—as opposed to cash sales offered by the US last January. Defense Minister Mejia says he wants to obtain military aid, especially small arms and helicopter spare parts, directly from the US or through El Salvador. Mejia and his Salvadoran and Honduran counterparts last week discussed military coordination and the possibility of Guatemala obtaining military aid from El Salvador. The three ministers plan to meet again to discuss possible areas of cooperation. [redacted]

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Comment: Under former President Rios Montt, Guatemala did not cooperate actively with its two neighbors. Mejia already has issued a condemnation of Nicaragua's support of Salvadoran and Guatemalan guerrillas. Areas of possible cooperation include intelligence and training exchanges, arms interdiction efforts, coordinated border patrolling and blocking operations, and the loan of equipment. [redacted]

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NIGERIA: Concern About Election Results

Complete but unofficial gubernatorial election returns show President Shagari's National Party sweeping 13 of 19 states. The US Embassy reports that the federal election commission is reexamining particularly controversial results in three states where opposition incumbents lost in their ethnic homelands. The Embassy also notes that several of Shagari's top advisers are concerned that their party's victory may be too big to be publicly acceptable. Late press reports indicate several persons, including National Party officials, have been killed in protests that broke out over the election results. [redacted]

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Comment: Senior government officials are concerned about the prospect of serious unrest in states formerly controlled by the opposition. They could put pressure on the election commission to carry out some last-minute re juggling of election figures, or order new elections in several of the more controversial states to try to reduce tension. Failure to credit the opposition with more gubernatorial victories could undermine public faith in the election process, provoke ethnically based communal violence, and even encourage coup plotting. [redacted]

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USSR-JAPAN: Working-Level Discussions

A high-level official of the Soviet Ministry of Foreign Trade has agreed to Japan's proposal for working-level discussions on bilateral trade, probably in early October, according to press reports of comments by Japanese Embassy officials in Moscow. Japanese Foreign Minister Abe, during a brief stopover in Moscow on Sunday, reaffirmed interest in reviving this dialogue and agreed to the usual annual meeting with Foreign Minister Gromyko at the UN. According to Abe, however, an improvement in relations depends on Moscow's willingness to give attention to the political differences dividing the two countries. [redacted]

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Soviet media have criticized Abe's scheduled visit to Hokkaido next weekend to inspect the Soviet-held Northern Territories. Deputy Foreign Minister Kapitsa has asked Abe to refrain from any anti-Soviet remarks during that visit. The Soviets doubt, however, that Abe will comply. [redacted]

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Special Analysis

EGYPT-USSR-EASTERN EUROPE: Arms Purchases

Egypt has increased its military purchases in the past several months from the USSR and East European nations. Some of these purchases are the first orders negotiated in many years. Egypt continues to depend on the US and other Western countries for most of its weapons. Nonetheless, this preference is unlikely to deter Cairo from concluding deals that offer more attractive financial terms, prolong the life of Soviet equipment in Egyptian inventories, and improve relations with Communist countries.

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The Egyptian military has been frustrated at times by the high cost of military supplies from Western countries and the long delays in delivery. In addition, the Egyptians have experienced difficulties integrating the US system of maintenance and of stocking spare parts with their existing Soviet-model system.

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Moreover, the Egyptians are still accustomed to the Soviet practice of having a one-for-one duplication of spare parts for a given weapon system.

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Dependence on USSR

Before 1975, the USSR was Egypt's primary arms supplier. It provided Cairo with \$4 billion worth of warships, missiles, jet fighters, tanks, and other arms.

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After the USSR curtailed arms shipments to Egypt in 1975, much of the equipment provided by the Soviets became unserviceable or obsolete. Egypt's problem in maintaining or replacing this equipment is likely to have been behind the recent increase in military purchases from the USSR and Eastern Europe.

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Other Communist Suppliers

Except for Romania, the members of Warsaw Pact countries stopped selling arms to Egypt in 1975. 


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Romania generally did not consult the USSR about its previous arms sales to Egypt, and it is unlikely to have done so recently when it agreed to sell Cairo  tanks. The deal is another sign of Egypt's need to replace aging tanks that are too costly to repair.

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Egypt has been unable to pay the total cost of 900 US M-60 tanks required for its five-year modernization plan. The Romanian tanks will cost only about one-fourth as much as the US tanks. 


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The accord with Czechoslovakia for spare parts for T-54 and T-55 tanks and for the overhaul of light aircraft was the first military agreement with Prague in eight years. A deal with East Germany to overhaul some Soviet MIG aircraft in Egypt's inventory was the first order with Cairo since 1970. 

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In addition, Egypt's order with Hungary for unspecified military equipment was the first since 1974. A Hungarian delegation visited Cairo in May to discuss more deals, possibly involving tank repairs and the supply of armored combat vehicles. 

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